

Message Text

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ACTION EUR-12

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COME-00 DODE-00 EB-08 FEAE-00 FPC-01 H-01 INR-07
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R 161400Z AUG 77
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BRUSSELS FOR USEEC

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SUBJECT: HUNGARIAN SIX-MONTH TRADE RESULTS

1. SUMMARY: HUNGARIAN MINISTER OF FOREIGN TRADE JOSEPH BIRO REPORTED FOREIGN TRADE RESULTS FOR THE FIRST SIX MONTHS OF 1977 AT A CONFERENCE FOR THE HUNGARIAN PRESS AUGUST 5. SUBSEQUENT COVERAGE EMPHASIZED THE RAPID GROWTH OF HARD-CURRENCY IMPORTS, AS COMPARED TO HARD-CURRENCY EXPORTS. IT APPEARS AT MID-YEAR THAT HUNGARY'S 1977 HARD-CURRENCY BALANCE OF PAYMENTS DEFICIT WILL BE SIGNIFICANTLY LARGER THAN IN 1976. END SUMMARY.

2. BIRO REPORTED THAT HUNGARY'S HARD-CURRENCY IMPORTS IN THE FIRST SIX MONTHS OF 1977 WERE UP 31 PERCENT OVER THE
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CORRESPONDING PERIOD OF 1976, WHILE HARD-CURRENCY EXPORTS HAD INCREASED ONLY 17 PERCENT. THE 1977 ANNUAL PLAN HAD CALLED FOR HARD-CURRENCY EXPORTS TO INCREASE BY 17 - 19 PERCENT, WHILE IMPORTS WERE TO INCREASE BY ONLY EIGHT PERCENT. PERFORMANCE WAS MORE BALANCED IN RUBLE-DENOMINATED TRADE: EXPORTS AND IMPORTS BOTH GREW BY 22 PERCENT.

3. BIRO CITED A NUMBER OF REASONS -- BOTH INTERNAL AND EXTERNAL -- FOR THE DISAPPOINTING TRADE RESULTS. HIS ANALYSIS DID NOT OFFER MUCH HOPE FOR SIGNIFICANT IMPROVEMENT IN THE SECOND HALF OF THE YEAR. HUNGARY IS SUFFERING FROM ADVERSE PRICE TRENDS: AVERAGE NON-RUBLE IMPORT PRICES ARE PROJECTED TO RISE BY 10-12 PERCENT OVER 1976, WHILE EXPORT PRICES WILL RISE BY ONLY 6-8 PERCENT, IMPLYING AN ADVERSE MOVEMENT OF THE TERMS OF TRADE OF ABOUT 4 PERCENT. WHILE RUBLE-TRADE PRICES ARE MORE STABLE, THE TREND IS ALSO UNFAVORABLE: AN ESTIMATED 4.4 PERCENT RISE IN IMPORT PRICES, AGAINST 1.3 PERCENT IN EXPORT PRICES. WEAK DEMAND IN THE WEST HAS HURT EXPORTS. BIRO ALSO NOTED THAT THE STRUCTURE OF DEMAND DIFFERED FROM EXPECTATIONS, SO THAT SALES OF AGRICULTURAL MACHINERY AND BUSES WERE SLACK, WHILE SUPPLY CONSTRAINTS HELD DOWN SALES OF AGRICULTURAL PRODUCTS, FLOATING CRANES, MACHINE TOOLS, AND OTHER ITEMS OF EQUIPMENT. THE SURGE IN IMPORTS WAS ATTRIBUTED TO STRONG INTERNAL DEMAND (APPARENTLY IN BOTH INVESTMENT AND CONSUMER GOODS). SOME OF THIS REPRESENTED PENT-UP DEMAND FOLLOWING IMPORT RESTRICTIONS IN 1976, WHICH MAY MODERATE SLIGHTLY IN THE SECOND HALF OF THE YEAR.

4. BIRO CRITICIZED THE DEVELOPED COUNTRIES FOR CONTINUING LIMITED OFFICIAL USE

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TO MAINTAIN DISCRIMINATORY TRADE BARRIERS AGAINST HUNGARIAN PRODUCTS, SPECIFICALLY MENTIONING QUANTITATIVE RESTRICTIONS MAINTAINED BY THE EC, NORWAY AND SWEDEN.

5. THE TRADE MINISTER ALSO EMPHASIZED THAT HUNGARIAN FIRMS NEED TO IMPROVE THEIR EXPORT PERFORMANCE, ESPECIALLY IN THE AREAS OF QUALITY CONTROL, MEETING DEADLINES, AND EFFECTIVE MARKETING TECHNIQUES.

6. AS AN ILLUSTRATION OF THE FAVORABLE TRADE CONDITIONS HUNGARY RECEIVES FROM THE SOVIET UNION, BIRO SAID THAT HUNGARY WILL IMPORT 7.4 MILLION TONS OF CRUDE OIL FROM THE USSR IN 1977 AT A PRICE OF 49.20 RUBLES PER TON, AS COMPARED TO THE CAPITALIST PRICE OF 105 DOLLARS OR 78 RUBLES. (NOTE: ACCORDING TO OFFICIAL HUNGARIAN STATISTICS, HUNGARY PURCHASED 7.725 MILLION TONS OF CRUDE OIL FROM THE USSR IN 1976.)

7. COMMENT: ACCORDING TO EMBASSY CALCULATIONS, HUNGARY'S HARD-CURRENCY BALANCE OF PAYMENTS WAS \$254 MILLION IN THE RED FOR THE FIRST SIX MONTHS OF 1976, AND MINUS \$347 MILLION FOR THE WHOLE YEAR. THE RUBLE BALANCE WAS IN

DEFICIT BY 126 MILLION AND 247 MILLION RUBLES FOR THE
SAME PERIODS. THE EXPORT AND IMPORT TRENDS WHICH BIRO
REPORTED -- AND WHICH ARE LIKELY TO PERSIST THROUGH THE
END OF THE YEAR -- WOULD INDICATE SIGNIFICANTLY LARGER
DEFICITS IN BOTH ACCOUNTS, WITH THE HARD-CURRENCY
DEFICIT POSSIBLY EXCEEDING THE \$582 AND \$531 MILLION
DEFICITS OF 1974 AND 1975.

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